



Promstroibank

Investment alert

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Still an attractive entry point to VTB

Promstroibank Fair value \$1.89

STOCK DATA

Ticker	pcbs	MCap (US\$ mn)	2,049
Shares Ords	1,260,976,996	Free Float, %	25
Shares Pref	-	Free Float (US\$ mn)	517
Bid Ords (US\$)	1.61	Offer Ords (US\$)	1.64

PERFORMANCE 2006E

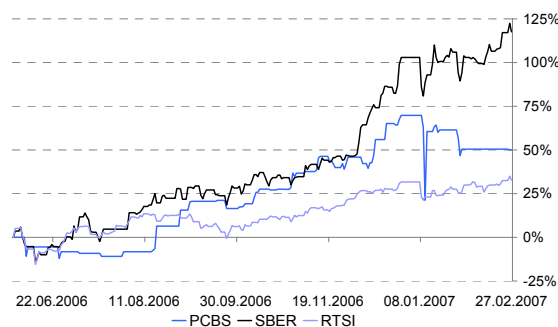
Assets (US\$ mn)	5,536	ROA, %	3%
Book value(US\$ mn)	728	ROE, %	23.4%
Net profit (US\$ mn)	170	P/A	0.37
Tier 1 Capital ratio, %	13.1%	P/BV	2.8

Vneshtorgbank

PERFORMANCE 2006E

Assets (US\$ mn)	48,800	ROA, %	2.3%
Book value(US\$ mn)	6,450	ROE, %	17.6%
Net profit (US\$ mn)	1,140	Tier 1 Capital ratio, %	13.2%

PSB performance vs. Sberbank and RTS index



Russian bank multiples, 2006E

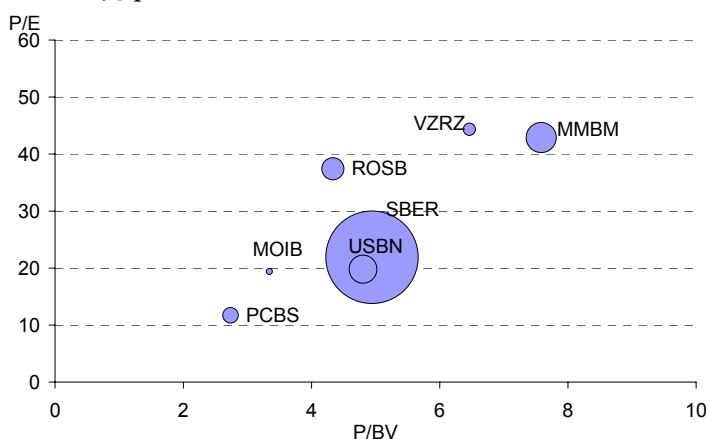
	P/BV	P/E	ROE
Sberbank	5.1	22.6	22.6%
Uralsib	5.1	20.9	24.3%
Bank of Moscow	7.8	44.4	17.7%
Rosbank	4.9	42.7	11.6%
PSB	2.8	12.2	23.4%
Vozrozhdenie	6.8	46.9	14.6%
MIB	3.6	21.0	17.2%
Average	5.2	30.1	18.8%

Source: Sovlink estimates

• We view Promstroibank (PSB) shares as a rather attractive entry point to VTB, even taking into consideration a possible revision of the announced swap ratio. We remind investors that the announced swap ratio is 385 VTB shares per share of PSB. Taking into consideration that since the swap announcement (September 22, 2006) the situation in the Russian banking sector has changed considerably, and VTB has developed faster than PSB, we believe that the swap ratio will be revised.

• According to announcements from VTB officials, the swap ratio will be revised in July, then approved by the bank's supervisory board in August, and by shareholders in September. It is worth noting that PSB will only be consolidated into VTB after VTB's IPO, scheduled for this year. We believe that the establishment of a worse swap coefficient for PSB shareholders is possible. That said, we do not assume an overly large discount to the currently announced swap ratio, and see a maximum 25% discount to the current swap ratio, reflecting VTB's better performance and higher asset base quality. At the same time, we think that the successful Sberbank secondary placement, the ongoing reassessment of traded Russian banks and the expected sound 2006 IFRS results for VTB will facilitate high valuations for VTB shares during its IPO.

• Given Sberbank's current P/BV of 5.12 and the average banking sector P/BV of 5.3, we believe that a fair P/BV for VTB is at least 5. Further, VTB is the second-largest Russian bank by assets and capital, it has the most developed network of foreign subsidiaries, and a unique corporate client's base. Given this, we believe that VTB can easily be valued at \$33–\$35 bn during its IPO, what suggests a fair value for PSB of \$1.82–\$1.93 per share.



• Using our median VTB valuation of \$34 bn and applying a 25% discount to the current PSB/VTB swap ratio, we obtain a fair value of \$1.89 per PSB share, which implies 16% upside to current market prices. At the same time, we underline that the discount to the current ratio could be lower, which would imply a higher fair value.



VTB description

VTB is the second-largest bank in Russia (after Sberbank) by key assets, capital and net profit. VTB—along with VTB 24 and PSB—controls 9% of Russian banking system assets. The bank’s main advantages are state financing and political support. Moreover, VTB possesses the most developed bank network abroad and has a unique base of large corporate clients.

VTB carries out banking operations in Russia through one bank and four affiliated banks having a network of 151 subsidiaries: 55 of them represent VTB, 42 represent VTB 24 and 54 represent PSB. VTB’s activities abroad are carried out through ten affiliated banks located in the CIS (Armenia, Georgia, Ukraine), Western Europe (Great Britain, Austria, Switzerland, Germany, Luxembourg, France), Cyprus, and also through subsidiaries in India, Italy, China and Belarus.

By the end of 2006, the Russian government approved a VTB share issue for May, 2007 for a total amount of 90–120 bn rubles (\$3.4–4.6 bn) and a subsequent IPO. As a result of the IPO, the state’s share in VTB’s authorized capital will decrease to 75% +1 share (after the consolidation of PSB).

Promstroibank description

Promstroibank is one of the twenty largest Russian banks. It has 53 subsidiaries in 37 Russian cities, although its main business is concentrated in Russia’s Northwest (70% of total assets) and Moscow (11 subsidiaries). The process of consolidating PSB with VTB requires the incorporation of unified management standards, the integration of product programs (especially in the retail business) and the optimization of its branch network. The bank’s pre-tax profit rose by 37.4% in 2006 to 5.9 tr rubles (\$225.6 bn), while its equity rose 32.2% to 19.1 tr rubles (\$720.8 bn).

PSB continued to develop its retail business in 2006—private credit rose by 65%, while mortgage securities were also a fast-growing business due to dynamic market development. Mortgage loans increased by 152%.

Swap ratio

VTB has accumulated 75% +3 shares of Promstroibank. At an EGM on September 22, 2006, it was announced that investors could redeem their shares at 22 rubles (\$0.84) per share, or they could convert their shares into VTB shares at the swap ratio of 1:385. This month, VTB officials announced that the valuations of the two banks would be revised after VTB’s IPO, which implies that the swap ratio will also be changed.

Below, we provide a possible range for PSB’s fair value, depending on the discount applied to the current swap ratio and VTB’s IPO valuation.

PSB fair value estimation

Discount to announced PSB swap ratio	20%	25%	30%
VTB P/BV ratio			
4.8	1.83	1.72	1.60
5.3	2.02	1.89	1.77
5.8	2.21	2.07	1.93

Source: Sovlink estimates



STOCK RATING POLICY

STRONG BUY:	Target price offers upside of over 100%; confidence level – high
STRONG BUY (SPEC):	Target price offers upside of over 100%; confidence level – low
BUY:	Target price offers upside of between 25% and 100%; confidence level – high
BUY (SPEC):	Target price offers upside of between 25% and 100%; confidence level – low
HOLD:	Target price offers upside of less than 25%
SELL:	Target price at or below current price levels

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